

Jim Rogers' Interview

Recently Alan Konn, Principal Of Uhlmann Price Securities, LLC, had a chance to catch up with Jim Rogers® who recently moved to Singapore. Alan had the opportunity to ask Jim about the commodity asset class, his Rogers® International Commodity Index and specifically the Agricultural Commodity Sector. Below is a transcript of their conversation. If you would like additional information on the commodity asset class, the Rogers® International Commodity Index or the Agricultural please contact us at www.upsecurities.com/investor/default.asp.



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Alan Konn: Jim, it is nice to have you join us today. And I hope your move to Singapore has gone well. We have a few questions, both about your index and specifically about the agricultural sector of the commodity asset class. First, just to give our listeners a little background, you created the Rogers International Commodity Index® back in 1998 when few people were talking about the commodity asset class and probably even less were believers in the industrialization of China. Can you give us a little background on either your experiences or what factors led you to come to the conclusion that there was a tremendous opportunity in the commodity asset class?

James Beeland Rogers Jr.: Well, Alan, I've been investing around the world for many years, as you know. And I noticed by the end of the '90s that nobody had been investing in commodity production capacity at all for over 20 years. But demand, it was booming. I knew what was happening in Asia, China and the rest of the world. I had been there several times, so it didn't take too much to figure out well, if supply is down and demand is going up, that's going to lead to a bull market. I realized that inventories were low. I realized that prices of commodities were extremely cheap on any historic basis. So it made sense for me to conclude that we would have a bull market in commodities or at the least that the bear market was coming to an end.

Alan Konn: Well, you certainly have been right. Your index has been the best performing index of any of the recognized commodity indices and actually one of the best performing indices of any kind since 1998. But give me some idea on the reasons behind creating your own index. There were some other existing indices at the time. You wanted to create an index fund. Why did you create your own index? And what makes it different from the other indices?

James Beeland Rogers Jr.: Well, Alan, my original plan was that I wanted to create an index fund. (A), I was going to be travelling and (B), I didn't want to become an asset manager in the investment world. I wanted an index fund at that point, so I examined the existing indices. They were awful. I wouldn't put my money into any of them. You know, Goldman Sachs had one, it was mainly energy at the time. But more important, they changed it dramatically every year so you never knew what you were investing in if you had the Goldman Sachs index and neither did they for that matter. Also Goldman Sachs would trade and arbitrage against their index customers - I know they didn't tell people that out loud anyway, but that's what they do. Well, I didn't have any customers to arbitrage against. There were similar problems with the other indices. So the only thing I could figure out to do was to come up with my own index. I didn't plan in life to have a commodities index, Alan. I was forced to because of circumstances. There were no decent indices for my plans or my money, so I had to come up with my own index. And I did a lot of research and homework. The others, for instance, were not very international. They were mainly restricted just to U.S. commodities which traded in the U.S. and traded in London. None of them had rice, for instance. You know, more than half of the people in the world eat rice every day. I could go on and on. So I came up with an international index, which has at the moment 36 components; things that are traded all over the world and things that we all use every day. It was designed to reflect the cost of staying alive around the world and the cost of doing business around the world. I sat and did a lot of homework, a lot of research, and came up with this index. And I'm delighted you pointed out it's done much better than all the other indices. It has. But at the time I didn't know what I was doing but it certainly has stood the test of time. It's outperformed others. There's been very few changes. There have been minimum changes in the 10 years that it's been in existence-- so for whatever reason, and I'm sure it's plain luck, I got it right back then, many years ago.

Alan Konn: Well, congratulations on that. And it certainly seems to fit the definition of an index. You know, over the past couple of years, you've talked a lot about the opportunity in the agricultural sector of your index. You're quoted many times about explaining and talking about that sector. How has the agricultural sector performed relative to the other sectors in your index, such as energy and metals? And what makes it so attractive today, the agricultural sector?

James Beeland Rogers Jr.: Over the 10 years, the agricultural sector has performed the worst. Metals and energy have performed much better. Of course, for that reason, it makes it more attractive right now. I mean, it's cheaper. But also looking at agricultural prices on a historic basis year by year, indeed many agricultural prices are still very cheap especially if you adjust those prices for inflation they're very cheap - even though some are making all time highs. But sugar is 90 percent below its all time high and cotton is 50 percent below its all time high. Coffee is 60 percent below its all time high. And again, if you adjust all the agricultural prices for inflation, they're all far below their all time highs. The number of acres devoted to wheat farming has been declining for over 30 years. Inventories of food are at the lowest levels since 1972. That's 36 years ago. You see lots of important, fundamental changes have taken place in agriculture. And we're all going to start burning a lot of agricultural products in our fuel tanks for better or for worse. Demand is growing in many ways. It's not just for ethanol which is fuel by the way. Look at Asia; they're a lot more prosperous now than they used to be. And they want to eat more often and to wear better clothes. And they want to do all sorts of things which will increase the demand for agricultural products.

Alan Konn: Well, I get asked the question a lot with agriculture whether - relative to energy or metals, can't you just plant more grain or more corn? Or, you know, the thought process is - and I get asked a lot, isn't it relatively easy for supply to catch up to demand in agricultural commodities?

James Beeland Rogers Jr.: Well, we can discuss that. You know, it takes over five years for a coffee tree to mature. So even if you and I decide to go into the coffee business tomorrow, Alan, it's going to take several years before we have any coffee to show for it. The same is true of orange trees, rubber trees, a lot of things. And yes, you can perhaps increase your acreage of corn, say, if you can find the acreage. But remember, if you can find the acreage - and there's not that much acreage sitting out there just waiting for someone to come along and say, "Why don't you plant some corn here." But even if you do, the acreage you're bringing on is marginal - because remember, farmers always keep their most productive acreage in production. Otherwise, they go out of business. So they can start bringing on marginal acreage, I guess - but doubling acreage is not going to double production. And of course, you have to worry about weather and a few other things. And another side effect over the past 30 years of low agricultural prices is that much land is very intensively farmed. It's not as good as it was once before. And believe it or not, land wears out, I didn't know it either. Apparently, it does wear out over a long period of time. And unfortunately, much of the land has remained in production and is less productive than it used to be. But yes, you can bring on new production. But I also remind you that inventories are at lowest levels since 1972. We haven't had droughts in the world - worldwide droughts in a long time. We used to have them fairly regularly. We've had some isolated droughts in parts of Australia, etcetera. I don't know if we're ever going to have droughts again, Alan, but if we do, the agricultural prices will skyrocket. You can have a blizzard and it might close your mine for a week, but a blizzard can wipe out your plantation and put you out of business for a long time.

Alan Konn: Well, I think you made the case. It's a little more complicated than one might look if they haven't done any of their homework. Something that's been in the news a lot particularly lately is the slowdown in the North American economies. And it's getting a lot of press recently with some of the world markets being weak, including North American markets. How does the potential slowdown in the economies affect prices in the agricultural sector? And how should investors think about agricultural investments in light of the weaker economic scenario that we may be facing?

James Beeland Rogers Jr.: Well, the slowdown, the economic slowdown, first of all, slowdowns happen throughout history every time - and this year we're going to continue to have a slight slow down. And it will have an affect on overall demand to an extent. But remember, Alan, in the '70s, we had a terrible economy - and around the world. One of the five largest economies went bankrupt in the 1970s yet we still had a huge bull market in agriculture and a huge bull market in commodities. There will always be corrections in any market, bull or bear, neither go straight up or straight down, as you well know. And we'll have corrections. I don't see an economic slowdown in the west or even in Asia having that much of an affect because if nothing else the Chinese want to eat a little better every day. So do the Vietnamese and everybody else, alright. So it is a period of limited supply and demand continuing to grow. Maybe it won't grow as fast but it's going to continue to grow. And at worst, we have a temporary correction. And those are the sorts of things which are global to markets and there will be opportunities for people to buy more. If you look at any bull market in history, Alan, you'll see periods where prices have gone down. But it's normal. It's nothing to be worried about. In fact, you should just - you should ignore it, and don't look at the markets daily or even weekly.

Alan Konn: All right, terrific. How about we give our listeners some additional insight? Pick a commodity or two that, in your agriculture sector - you already mentioned sugar. Any others that you think have great long term appeal and why?

James Beeland Rogers Jr.: Well, Alan, I've been investing all over the world for many years, and there are many agriculture commodities which trade all over the world for me to choose from, but I have to tell you I am the world's worst trader...

Alan Konn: Or so you say ...

James Beeland Rogers Jr.: Let me just repeat, inventory is low, as discussed in the last question - the inventories are at the lowest they've been since 1972. People have just not been producing enough food or any agriculture and they have not been stockpiled. They're consuming more than we have used in years now. So the world is going into the upcoming period with some great pressures. We haven't had drought. We haven't had a lot of problems like we used to have for many, many, many years. So whatever happens, prices could go up a great deal. I mentioned sugar. I mentioned coffee. I have no idea whether they'll go up or not, but I do know that they're extremely depressed on a historic basis. Wheat's been strong and still hasn't come down. World markets have their normal reaction. Look at the ones that haven't gone up as much, is what I would do - orange juice, for instance. Most commodities are still low on a historic basis.

Alan Konn: Well, you've convinced me to go home and do some more homework. Jim is there anything else regarding the agricultural sector, the commodity asset class in general - any last comments you'd like to leave our listeners with?

James Beeland Rogers Jr.: Well, I would emphasize again how this whole thing with ethanol and biofuel is going to cause - is causing and will continue to cause huge demands and they take up a lot of the agricultural production. So even if we produce more, remember, that a lot of it is going to be burned in fuel tanks. While there are many questions whether it is good or bad, the facts are it's going to burn in fuel tanks. You can see, what's not going into our stomachs is going to go into the fuel tanks. The more people move acreage for land to corn for ethanol; the fewer acreage people have to plant cotton or soy beans and so many other things. Prices have been depressed for a long long time. I urge people - I've been buying agriculture. I urge people to do their homework and maybe they would come to the same conclusion.

Alan Konn: All right. Jim, that's really terrific and thank you for your patience in making connections from around the world and in Singapore. And I hope the move has gone well. And I wish you the best of luck in your new home.

James Beeland Rogers Jr.: Very, very good. Thank you very, very much, Alan. Bye-bye.

END OF TRANSCRIPT

Thank you for reading Alan's interview with Jim Rogers®. Again, if you would like additional information on the commodity asset class, the Rogers® International Commodity Index or the Agricultural Sector please contact us at www.upsecurities.com/investor/default.asp.